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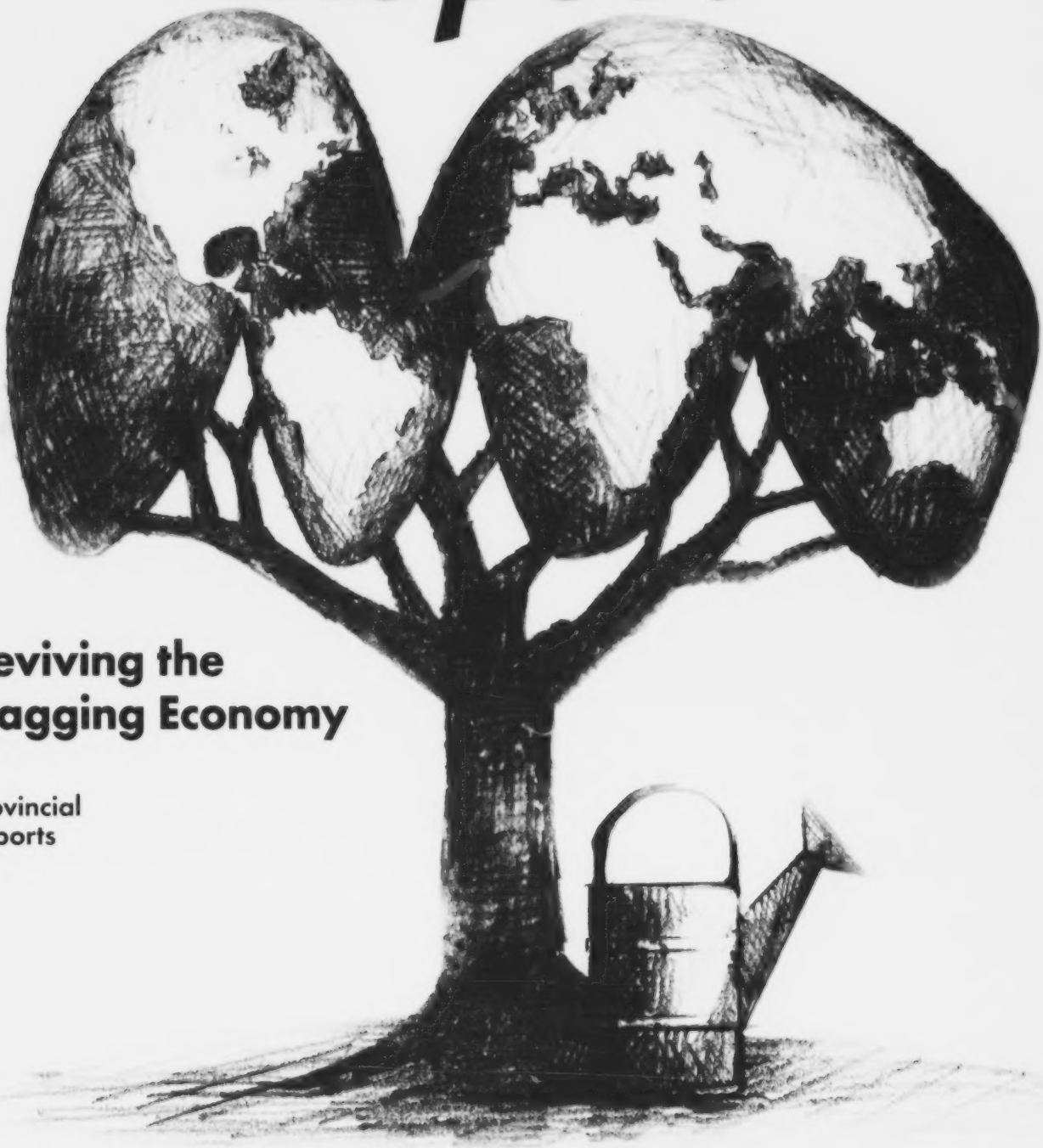

Reviving the Flagging Economy

p. 2

Provincial Reports

p. 6

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The Atlantic Provinces Economic Council (APEC) is an independent, not-for-profit, research and public policy organization that seeks to advance the economic development of the Atlantic Region. APEC's revenue is derived primarily from membership, funded research and sponsorships. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

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About this Report

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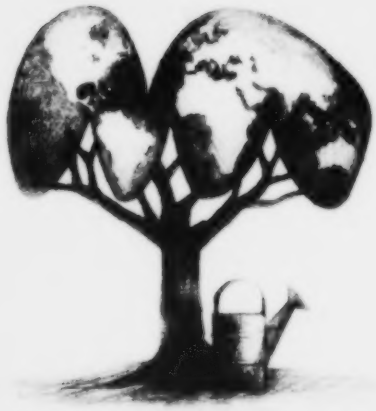


Atlantic Report
Highlights

Reviving the Flagging Economy

- Growth in the global economy is expected to fall to just 0.5% in 2009, its lowest level in the last sixty years.
- Forecasters have revised downward their outlook for the U.S. and Canadian economies: U.S. real GDP growth is expected to decline by 1.8% in 2009.
- Although the recession in Canada is not expected to be as severe as the U.S., output is expected to drop by 0.9%, with losses concentrated in the first half of the year. All four Atlantic provinces will fall into negative growth territory for 2009.
- To respond to the crisis, central banks around the world have slashed interest rates while several have introduced various measures to help stabilize their banking and financial systems. Interest rates in the U.S. and Canada are now at 50-year lows.
- Governments are also providing fiscal stimulus: the Canadian federal budget (January, 2009) announced additional spending of $40 billion over two years, equivalent to 2.5% of GDP. This will lead to a federal deficit of $34 billion in the coming fiscal year: the budget is not positioned to return to balance until 2013-14.
- Budget measures targeted temporary and permanent tax cuts and infrastructure spending to deliver economic stimulus. To get the full benefit of some of these programs, provinces will have to provide matching funding and ramp up their capacity for program delivery.
- Does the budget respond adequately to the requirement for immediate stimulus? The full effect of the tax reductions will not be felt until next year and most of the infrastructure spending is unlikely to get underway until the second half of 2009.

Provincial Reports

- **Newfoundland and Labrador's** economy in 2008 was marked by a housing boom and a consumer spending spree amidst declining oil production.
- Gains in the aerospace sector were a source of strength in an overall weak year for economic growth in **Prince Edward Island** in 2008.
- Slumping auto sales, ongoing weakness in the forest products industry, and a decline in global commodity prices is contributing to further job losses in **Nova Scotia's** manufacturing and mining industries.
- **New Brunswick's** economy moved slowly ahead in 2008 with robust consumer spending despite weak job growth. Large capital projects helped boost incomes but export markets faired poorly due to the plummeting U.S. economy.

Reviving the Flagging Economy

Less than three months ago, APEC was cautiously optimistic that the recession would be short and relatively shallow. However, the downside risks identified in our fall forecast have quickly materialized.

Growth in the global economy is expected to fall to just 0.5% in 2009, its lowest level in the last sixty years. Developed countries in Europe and North America are now in a recession and growth in countries such as China and India is slowing from double digit increases in recent years to 5-7% in 2009.

In the U.S., the recession is deepening as job losses accelerate and consumers cut spending. Employment in the U.S. has fallen by over 3 million since the beginning of 2008 including over 1 million in the last two months of the year. Meanwhile the housing market shows no sign of turning around with 2008 housing starts down 33% over the previous year, and house prices down 8.7% for the 12 months ending in November.

Provincial economies are slowing across the country although Ontario's manufacturing industries have born the brunt of job losses to date. Western Canada's rapid expansion has slowed due to falling commodity prices. Atlantic Canadians who had been working in Western Canada are starting to trickle back home as oil sands projects are cancelled or delayed.

The deteriorating economy is now becoming more evident in Atlantic Canada. Retail spending has slowed and consumer bankruptcy rates have jumped in the three Maritime provinces. The decline in output and exports from some key industries is now leading to job losses especially in rural Atlantic Canada: according to the Labour Force Survey, Atlantic employment in December fell to its lowest level in 12 months. The forest sector has taken a battering for several years and losses have

continued with more mill closures early this year. The manufacturing sector has also been hit with closures in the auto parts and agriculture sectors.

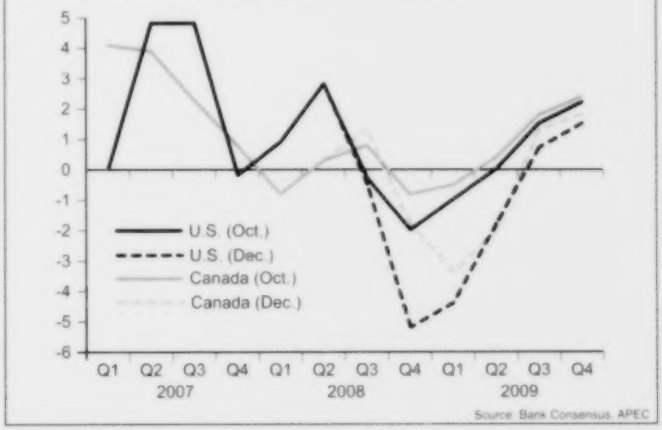
Oil prices have continued to fall in 2009, dropping to under US$40/barrel in January after peaking at over US$140/barrel in 2008. Most bank forecasters expect oil prices to average between US$35 and US$55/barrel in 2009 before picking up in 2010 as the global economy begins to recover. Metal prices fell dramatically in the second half of 2008 leading to the cancellation of an $800 million expansion at the Iron Ore Company of Canada mine in Labrador and the closure of recently opened mines in Bathurst, New Brunswick and Gays River, Nova Scotia. The closed mines may reopen when conditions improve but the companies may have difficulty riding out the storm with so much capital invested in these ventures. The service sector is also not immune to the economic downturn: companies such as Bell Aliant, Major Drilling and Air Canada have cut employees in recent months while others are slowing down their expansion plans.

Outlook Still Uncertain

Forecasters have revised downward their outlook for the U.S. and Canadian economies, knocking about 1.5 percentage points off their expectations for growth in both countries compared to forecasts made three months earlier. As of mid-January, the consensus of bank forecasters is that real GDP growth in 2009 will decline by 1.8% in the United States, and by 0.9% in Canada, with losses concentrated in the first half of the year. Most forecasters expect a recovery in the second half of 2009, continuing into 2010, buoyed in large measure by the impact of both monetary and fiscal stimulus.

These forecasts place the United States in its worst recession since the early 1980s, and perhaps since WWII. While the recession in Canada is not expected to be as severe, employment is nevertheless expected to decline by at least a further 1% in 2009 on top of the 0.6% decline registered in the last two months of 2008.

The Deepening Recession:
Forecasters More Pessimistic on Growth Prospects
Consensus forecast of quarterly real GDP (annualized, %)



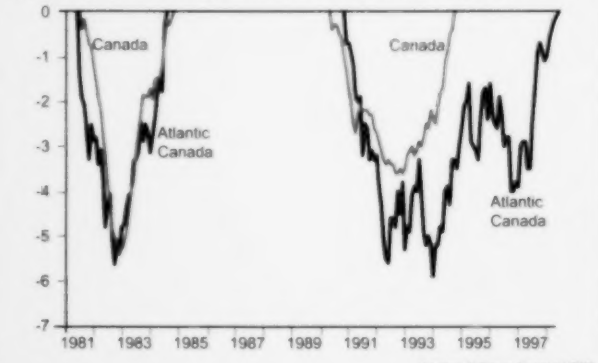
Source: Bank Consensus, APEC

Based on the downgrading of growth prospects for North America, it is now expected that all four Atlantic provinces will fall into negative growth territory for 2009. However, considerable uncertainty remains around the magnitude and likely duration of the recession in this region. Those who are hopeful for a mild recession will be encouraged that Atlantic merchandise exports (other than energy and ores) were little changed for the 11 months ending in November 2008 compared with the previous year, although based on the pattern observed in previous recessions, it would be reasonable to expect non-energy export volumes to the U.S. to drop in coming months. On the consumer spending side, the decline in October and November was mostly at the expense of a single sector - automobiles. A significant portion of the 4.5% decline in retail spending in Atlantic Canada during this period can also be attributed to lower gasoline prices.

Pessimists will be more mindful of prolonged recession in Atlantic Canada during the 1990s, where the initial employment losses were compounded by the full-scale restructuring of the fishery and related processing. It was not until mid 1998 that employment in Atlantic Canada reached the level achieved in 1991. Although there is no evidence to suggest that a similar situation is likely this time, there is widespread concern that the restrictions

on bank lending could hurt businesses in the Atlantic region and exacerbate the slowdown. In its January 2009 Senior Loan Officer Survey, the Bank of Canada reported a "further widespread tightening in lending conditions", the most significant reported since the survey began in 1999.

Recovery Time For Employment in a Recession Varies
Loss in employment during recessions of the 1980s and 1990s (%)



Source: Statistics Canada/APEC

Responding to the Crisis

So what should governments do to help revive their economies? Central banks around the world have slashed interest rates while several have introduced various measures to help stabilize their banking and financial system. Interest rates in the U.S. and Canada are now at 50-year lows. The U.S. Federal Reserve has cut its target rate to 0-0.25% where it is expected to remain for some time and is looking at other measures to support economic activity. The Bank of Canada cut interest rates to 1% on January 20, down from 3% last September and 4.5% in November 2007. In the 2009 federal budget, the Canadian government also committed up to $200 billion to improve access to credit, through mechanisms such as further purchases of asset-backed securities. This should improve the flow of credit to businesses and consumers.

The IMF has suggested that a global fiscal stimulus worth 2% of GDP is required in the current economic climate to help minimize the decline in private sector spending and to restore confidence. A sizeable fiscal stimulus is expected to be quickly put in place in the United States. A US$825 billion plan containing a mix of new spending and tax cuts, measured at 5% of their GDP, is currently working its way through Congress. Other countries, such as the UK, have already announced their own initiatives.

Federal Fiscal Stimulus

The Canadian approach, as announced in the January 27, 2009 federal budget, relies heavily on tax cuts and infrastructure spending to deliver economic stimulus. Total federal stimulus is estimated to be $40 billion over two years, equivalent to 2.5% of GDP.

The signs of the deteriorating economy are clearly visible in the projected federal budget balance which goes from a small surplus in 2008-09 to a deficit of $16 billion in 2009-10, before adding in the new stimulus measures. New budget measures push the overall deficit to $34 billion in the coming fiscal year and the budget is not positioned to return to balance until 2013-14. A prolonged recession could delay the return to budget balance beyond this. In the recession of the early 1990s, significant budget deficits ran through most of the decade, and a surplus did not re-emerge until fiscal year 1997/98. Although the federal government heads into this recession in a better fiscal position, there are concerns that the introduction of a further $5 billion in permanent tax reductions and spending measures on top of further tax cuts made in previous budgets could impede the return to budget balance.

Overall, for fiscal 2009/10, the 2009 budget provides:

- a $5.7-billion boost in infrastructure spending (with the provinces expected to kick in a further $4.5 billion) and $1 billion to enhance training;
- a $3.9-billion temporary tax credit to spur housing renovations (which will benefit the middle class and high-income groups);
- $3 billion in permanent tax cuts to stimulate spending by Canadians (particularly for low-income earners), plus a further $1 billion to enhance EI benefits; and
- $2.4 billion for businesses, communities and specific industries with $1 billion to keep EI premiums at their current level.

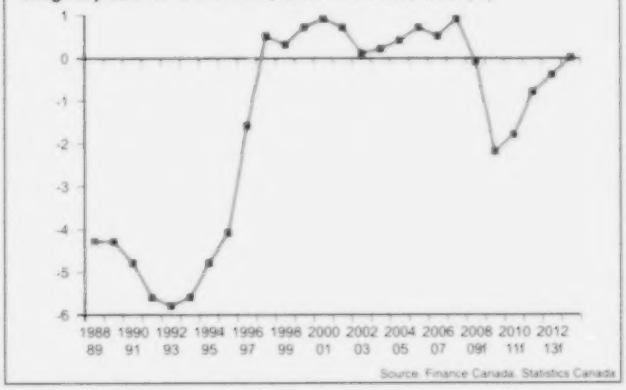
Does this satisfy the requirement for immediate stimulus? The housing renovation tax credit could lead to quick action by middle and higher income earners, particularly as this incentive is only available until February 2010. Less clear is whether some of the other budget measures on consumer and business spending will have an early impact. The personal tax cuts will eventually put more money into the hands of lower income Canadians (and a higher percentage of Atlantic Canadians fall into this category), but the full effect of an increased working income tax benefit will not be felt until next year. And despite a substantial increase in funding and commitments to accelerate the roll-out of infrastructure projects, it is still not clear that infrastructure spending will kick in soon enough. Current projections have the Canadian economy starting to grow again, albeit weakly, in the second half of 2009. Most of the infrastructure spending is unlikely to get underway until at least this point.

The Role of the Provinces

One of the challenges in ensuring quick action on the part of government is the role that provinces and municipalities are now expected to play in delivering programs and providing matching funding. As an example, much of the new funds for training will move down to provincial governments for delivery of the programs, but the full devolution of these programs is now only getting underway and smaller provinces may have trouble in ramping up to take advantage of the new cash.

Cash-strapped Atlantic provincial governments may need to borrow in order to contribute to matching infrastructure funding. However, they may be cautious to do so when their own budgets are already heading into deficit territory. Both New Brunswick and Prince Edward Island are now expecting larger deficits in the current fiscal year, partly due to a deteriorating economy. Bigger deficits loom in the upcoming fiscal year. Newfoundland and Labrador could be facing several years of deficit if oil prices remain below US$50/barrel, in stark contrast to that province's $1.3 billion surplus expected in 2008/09. A proposed change to equalization funding in the 2009 federal budget, could reduce equalization offset (Atlantic Accord) payments to that province over the next three fiscal years.

Federal Government Deficit Unlikely to Reach the Depths of the Last Recession
Budgetary balance to GDP ratio, Government of Canada (%)



Source: Finance Canada, Statistics Canada

Provinces may be quite willing to borrow for infrastructure programs where they have already participated in setting priorities. Prince Edward Island for example, is boosting its capital spending over the next three fiscal years while New Brunswick is providing a two-year boost. The jump in capital spending in both provinces in 2009 amounts to about 0.7% of provincial GDP. Numerous road, bridge and other infrastructure projects are already identified for shared cost expenditures in all four provinces.

However, provinces may be less willing to provide matching funding in areas such as social housing where the funding is only available for a short period of time and provincial governments have little in-house support to operationalize these initiatives. This could delay or limit the full applications of these programs in Atlantic Canada.

Conclusion

If there is any comfort to be gained from the economic downturn, it is that it has brought the debate on the merits of government action out from behind closed doors and into new corners of Canadian society. One would hope that as the federal government seeks to respond to increasingly engaged Canadians, this will lead to improved transparency, both in the announcement of program changes and new initiatives and in the monitoring of their impact.■

Provincial Report
Newfoundland & Labrador

Current Conditions

Newfoundland and Labrador's economy in 2008 was marked by a housing boom and a consumer spending spree amidst declining oil production. Although average employment in 2008 was 1.5% higher than the previous year, employment was noticeably lower in the second half of the year. Consequently, the unemployment rate rose from an average 12.8% in the first six months to an average 13.6% in the second half of the year. The unemployment rate may climb higher as global economic conditions continue to deteriorate in 2009. Most new positions in 2008 were in construction and public administration while job losses were concentrated in export-sensitive sectors such as manufacturing and accommodation and food service.

The impact of the global economic downturn on the province's manufacturing sector will continue into 2009.

The impact of the global economic downturn on the province's manufacturing sector will continue into 2009. AbitibiBowater Inc. announced that they would close their Grand Falls newspaper mill at the end of March. Currently the mill employs approximately 700 people. Slumping U.S. newsprint demand and energy and fibre costs were factors in the decision. A planned $2 billion expansion of the North Atlantic refinery in Come-by-Chance has also been deferred. Its owner, Harvest Energy, stated that a rescheduling of the expansion would depend on an improvement in financial markets and finding a partner to help fund the project.

Housing boomed across the province last year, supported by optimism about future offshore developments and in-migration. This reversal in migration trends has, at least temporarily, ended a continuous loss of population that began in 1993. Newfoundland and Labrador's population increased by an estimated 1,500 people over the last four quarters (to October 1, 2008) compared with a loss of almost 4,000 people in 2006. Consequently, urban starts and new home prices both increased 19% as of November, with rural starts growing nearly 33% in the first three quarters. However, new construction activity slowed sharply in the fall accompanied by steep drops in resale activity.

Higher wages and lower tax cuts helped increase disposable incomes and boost retail sales, which saw an 8.7% increase as of November 2008, much higher than the national gain of 4.2%. Retail spending in Newfoundland and Labrador increased in most areas, particularly for motor vehicles and other big-ticket items.

High oil prices bolstered energy exports, up 36% as of November despite an 8.5% decrease in offshore oil production. Oil prices also fuelled manufacturing shipments, up 32% in the first eleven months of the year, which were given an additional boost from increases in food shipments. Non-energy exports were up 10%, largely due to higher prices for iron ore.

Fiscal Update

The Province now forecasts real provincial GDP to increase 2.2% in 2008 (as opposed to a 2% decrease expected at the time of the spring budget) driven mainly by higher-than-expected oil production, and helped by increases in consumer spending, housing starts and capital investment. The government expects a surplus of $1.27 billion in the current fiscal year, more than double the $544 million projected in the budget, largely due to higher-than-expected average oil prices. The government intends to use the surplus to pay down the debt, reducing its net debt to $9.2 billion and its net debt-to-GDP ratio to 27.5%. However, Newfoundland and Labrador's economy is highly dependent on resource revenues, and given the global downturn's dampening effect on oil and mineral prices, a reduction in provincial revenues is expected. If oil prices remain below US$50/barrel into 2009 and 2010, the province could be facing significant deficits in the years ahead.

Mining and Offshore

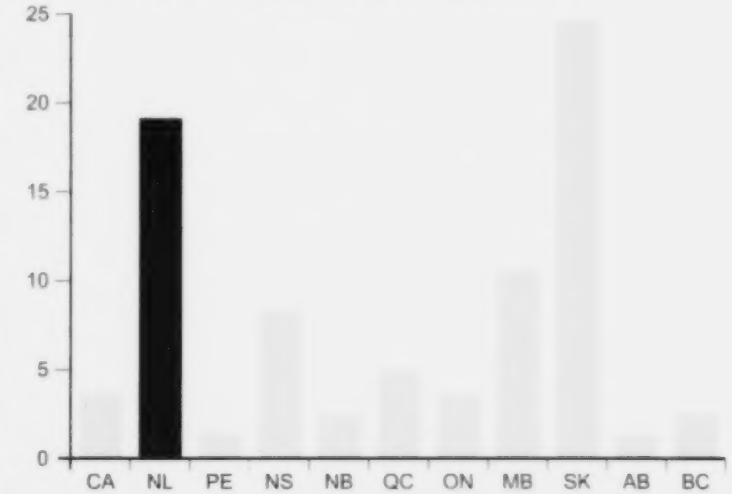
The global drop in mineral prices has caused cutbacks across the industry. The Iron Ore Company of Canada has suspended an $800-million dollar expansion in Labrador City. At least 200 new jobs that were planned as part of the expansion are now sidelined. According to the company, the decision may be revisited contingent on a significant improvement in global market conditions and commodity prices. In addition, eighteen employees were laid off in January from a mining project on the Baie Verte Peninsula and Wabush Mines, a subsidiary of Cliffs Mining Co., announced a layoff of 160 at its iron ore mine in Wabush.

Vale Inco's Voisey's Bay nickel mine, which employs about 400, will shut for the month of July in response to low prices. The company formally indicated in November that despite the drop in nickel prices it will move ahead with a $2-billion plan to construct a commercial hydromet plant at Long Harbour to process Voisey's Bay ore. The provincial government gave the company a three-week extension to January 22 to submit its final implementation plan for the construction of the facility.

The province's offshore oil sector continues to progress. Husky Energy is planning to spend $800 million on the East Coast in 2009, down from the $850 million it previously expected, with a large portion to be spent on the completion of the White Rose satellite tieback project at North Amethyst and to progress work on the West White Rose satellite field. The Canada Newfoundland and Labrador Offshore Petroleum Board announced a number of successful bids for parcels of land in the deepwater Flemish Pass area and Jeanne d'Arc Basin, with a total expenditure commitment of nearly $130 million. However, Chevron Canada deferred plans to drill a deepwater exploration well in the Orphan Basin this year. The company stated that cost estimates came in higher than expected, and that more technical evaluation in the area was necessary.■

New Home Prices in Newfoundland and Labrador Advance at the Second Highest Rate in the Country

New home prices (Year-to-date increase as of November 2008, %)



Source: Statistics Canada

Newfoundland & Labrador EconoClips

Company/Project/Status	Impact/Output	Comments
Rutter Technologies **New Contract**	15 new jobs	The electronics manufacturing company secured a $15 million contract to build parts for U.S. Army vehicles in St. John's.
Dynamic Air Shelters Ltd. **Expands**	At least 30 new jobs	The Burin peninsula manufacturer and exporter of specialized equipment for the oil and gas industry will extend its existing facility, build a quality control facility and purchase new equipment.
A.H.M. Fabricators Limited **Expands**	22 new jobs	The Corner Brook metal work company will build a new metal fabrication facility that will allow it to accept larger jobs based outside the province.

Provincial Report
Prince Edward Island

Current Conditions

Gains in the aerospace sector were a source of strength in an overall weak year for economic growth in Prince Edward Island in 2008. Employment averaged 1.3% higher in 2008, slightly below the 1.6% national growth rate. However, employment levels in Prince Edward Island have been trending down since mid-year and may weaken further as global conditions deteriorate. Provincial wage increases of 6% outpaced the inflation rate, which averaged 3.4% for the year, providing real income growth. This helped support solid retail spending on used cars and other big-ticket items. Total retail sales on the Island were up 5.7% as of November, although half of this gain reflects the impact of higher gasoline prices in the first three quarters of the year.

The government is seeking to limit the effects of the global downturn on the province by implementing the largest budget in the province's history.

Prince Edward Island's exports were 7.4% higher in the year to November, with decreases in food exports outweighed by large increases in the aerospace sector. Aerospace gains also helped to offset lower manufacturing shipments for food and chemicals, resulting in a 2.9% overall decrease in shipments for the year to November.

The housing market on the Island had a weak year, although better than the national average, with total housing starts declining 1.5% as of September. Despite the decline in home construction, new home prices were up 1.5% as of November, due to starts being focused on more high-end homes. The value of non-residential building permits more than doubled as of November, driven by work on schools and hospitals.

The tourism season was disappointing for the province, with the total number of visitors down 1.4%, hampered by high fuel prices for most of the year, along with weakening economic conditions in key markets. Visits to parks and historic sites saw significant decreases while a 180% increase in cruise ship passengers was one of the few bright spots. A 16% decline in U.S. visitors as of October included a 27% drop in those from New England, although other international visitors grew by 16%. The continuing decline in economic conditions in the U.S. and Ontario is expected to limit any rebound in visits from beyond the Atlantic region in 2009, despite the drop in fuel prices and a lower Canadian dollar.

Fiscal Update

In November the government revised its provincial economic growth projection for 2008 to 1.5%, down from 1.9% in the spring budget. The anticipated deficit for fiscal 2008-09 is now $49 million, $15 million higher than in the budget, due to lower anticipated revenue and higher program expenditures.

The government is seeking to limit the effects of the global downturn on the province by implementing the largest capital budget in the province's history. It proposed $510 million in capital spending over the next five years, jumping from less than $97 million in 2008/09 to $130 million in 2009/10. Spending will remain elevated until 2011/12, before returning to normal levels. In the next three years, 85% of capital spending will be concentrated in health, education and transportation. The first year will see a $10.4-million increase in healthcare spending (up 37% from the 2008/09 forecast), a $5.3-million increase in education (up 27%) and a nearly $8-million increase in transportation (up 19%).

Climate Change and Energy Plans

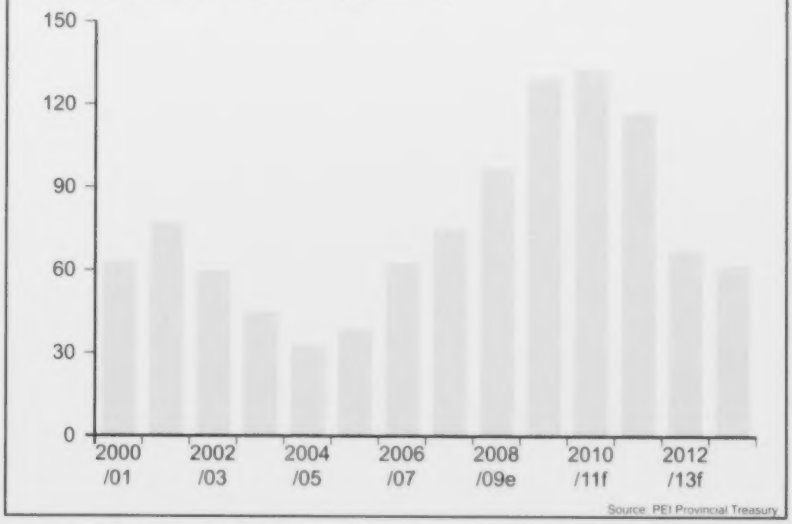
The provincial government simultaneously released their climate change and energy strategies in November. The Island is particularly vulnerable to a rise in sea levels so the government will set up an interdepartmental

working group to identify and manage current and projected climate-related risks. The province is committed to the New England Governors and Eastern Canadian Premiers plan to reduce greenhouse gas emissions by 10% below 1990 levels by 2020, and 75-85% below 2001 levels by 2050. For Prince Edward Island, this amounts to a 14% reduction from 2006 levels by 2020. This will be achieved by a change in the province's energy mix to less emissions-intensive fuels and improvements in efficiency.

The government plans to decrease the portion of the energy mix dedicated to petroleum products from the current level of 76% to 53% in 2018 by increasing use of biomass and liquid biofuels. Biomass will be encouraged by first reviewing existing codes and regulatory barriers impeding development, while liquid biofuels will be encouraged through renewable and low carbon fuel standards. Financial incentives will also be available.

The government is targeting a 10% increase in energy efficiency by 2018. A combination of strategies will be used including regulatory measures such as energy efficient building standards, a tax incentive for purchasing fuel-efficient vehicles, various educational initiatives and direct investment such as energy audits for government-owned facilities. The plan contained no absolute caps on emissions or pricing mechanisms for carbon.

PEI Plans to Stimulate the Economy Through Capital Spending
Provincial government capital spending ($ millions)



Source: PEI Provincial Treasury

The province expects to have 150 MW of total wind power capacity by the end of winter 2009, and plans to increase this to 500 MW by 2013. However, the contribution of wind energy to domestic energy use will not change significantly, as 300 MW of the additional capacity is expected to be used for export. The deadline for wind development proposals was pushed back from November 2008 to April 2009 due to the sharp drop in energy prices and a more difficult borrowing environment. ■

Prince Edward Island EconoClips

Company/Project/Status	Impact/Output	Comments
Vector Aerospace Engine Services Atlantic **Expansion**	50 new jobs over next two years	Formerly known as Atlantic Turbines Inc., the company is expanding its main facility at Slemon Park, Summerside. The growth is a result of the company obtaining new contracts for maintenance, repair and overhaul, along with a provincial grant of up to $500,000.
Master Packaging box plant **Expansion**	20- 25 new jobs	The $19.3 million expansion of the company,s facility in Borden is expected to be completed in the summer, and will be helped by a $14.5 million loan from the province.
Broadband services extended to rural islanders		Aliant has committed to invest $8.2 million to extend broadband services to every community in Prince Edward Island. The majority of the expansion is to be completed by the end of 2009.

Provincial Report
Nova Scotia

Current Conditions

Nova Scotia experienced a year of very modest economic growth in 2008. Average employment in the province was 1.2% higher than in 2007, below the national pace of 1.6%. The largest increases in employment were seen in construction while the largest declines were in manufacturing and education. However, a two-year period of job gains in the province appears to be over with employment falling in the last two months of 2008 and an increasing number of layoffs which will impact job levels in the months ahead.

Slumping auto sales, ongoing weakness in the forest products industry, and a decline in global commodity prices is contributing to further job losses in Nova Scotia's manufacturing and mining industries. Precision Finished Components auto parts plant in North Sydney will close with a loss of 260 jobs and auto parts maker Atlantic Castings Ltd. shut down its North Sydney plant in late December, laying off 55 workers. The Comeau Lumber mill in Meteghan announced an indefinite shutdown in January, laying off about 55 employees, while in Abercormbie, 34 workers accepted early retirement packages at the Northern Pulp mill. Acadian Mining cut a total of 65 jobs at its Gays River mine and Fundy Gypsum laid off 46 people in December due to the weakening U.S. housing market.

The global economic crisis has dampened expectations for economic growth with the government lowering their provincial GDP growth forecast for 2008 to 1.4%, down from 1.7%

While retail sales advanced 5.2% in the year to November, they weakened in the latter part of 2008, including a steep drop in motor vehicle sales in November. New home construction and resales also fell sharply in the fourth quarter following a province-wide slowdown in housing activity over the first three quarters of 2008. Despite the decline, new home prices rose last year, up 8.4% as of November, due to higher costs for materials and labour. A decrease in residential building permits points to continued slow activity in the first part of 2009 but non-residential permits have so far remained robust, up 15% as of November, due to an increase in school construction.

The tourism industry experienced another weak year due to the economic crisis in the U.S., the higher Canadian dollar and high gas prices during the summer season. As of November, total visitors were down 3%, with a 16% decline in U.S. visits. An increase in cruise ship passenger visits was one of the few positive indicators, up 29% in Halifax and 107% in Cape Breton.

Nova Scotia's energy exports shot up over 30% in the first eleven months of the year, lifted by high prices for natural gas, although prices have since fallen back. Natural gas output averaged 5% higher in 2008. Non-energy exports were little changed, with increases in rubber tires and paper offset by decreases in lumber and shellfish.

Fiscal Update

The global economic crisis has dampened expectations for economic growth with the government lowering their provincial GDP growth forecast for 2008 to 1.4%, down from 1.7% in the spring budget. Despite lower-than-projected income tax revenues and petroleum royalties, the crown share adjustment payment helped increase the government's 2008-09 budgetary surplus by $23 million to $213 million. The surplus will be used to pay down the government's debt. On the expenditure side, lower debt servicing costs and departmental spending more than offset increases from an accounting adjustment in the pension valuation. The premier has stated that the 2009 provincial budget will likely be delayed until late spring or early summer.

Climate Change and Energy Plans

The government released their climate change plan and energy strategy in mid-January. The aim is to reduce total greenhouse gas (GHG) emissions by at least 10% from 1990 levels by 2020, which implies a 21% reduction

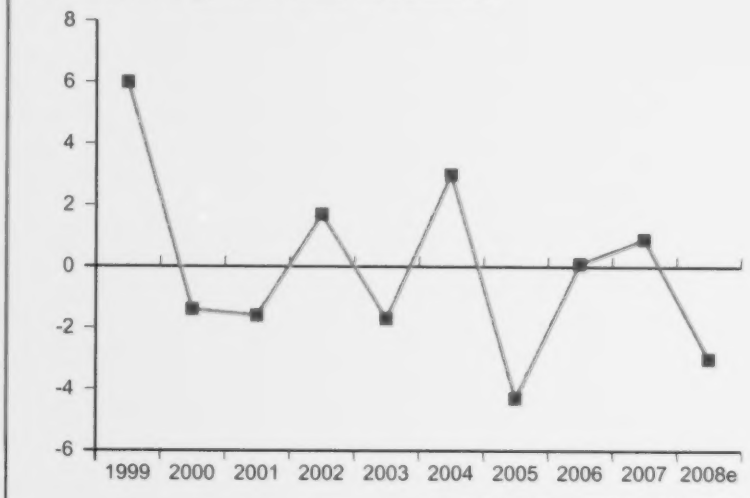
from 2005 levels. About 35% of this reduction will come from improved energy efficiency, including an expansion of efficiency and conservation programs and more stringent building codes. Approximately 15% will come from fuel consumption and emissions standards for new vehicles and the previously-enacted Renewable Energy Standard (RES). The RES legislated that Nova Scotia Power must increase renewable energy supply by 10% by 2013.

The remaining half of the overall reduction will come from caps on Nova Scotia Power emissions, which currently produces approximately half of the province's GHG emissions, along with new RES specifications for beyond 2013. Although a new standard has not yet been set, the provincial goal is at least 25% renewable electricity generation by 2020. While much of the energy strategy overlapped with the goals of the climate change plan, it made clear that the government will continue to encourage onshore and offshore exploration and development, including a $19 million investment in geoscience research.

Natural Gas

Work on the $760 million Deep Panuke natural gas project is on budget and on schedule to go into production in 2010 according to EnCana Corp. EnCana stated that capital spending on the project will rise to approximately $350 million in 2009, including work on the project's pipeline landfall and other local contracts. The contract to construct a supply boat is expected to be awarded shortly.

Another Weak Year for Nova Scotia Tourism
Year-over-year change in total visitors, Nova Scotia (%)



Source: Nova Scotia Department of Tourism, Culture and Heritage

In November, a Nova Scotia-based company, along with an Alberta-based company, won rights to explore in the Sable Island area, with a total work-expenditure bid of $137 million. In the same month the Nova Scotia Offshore Petroleum Board called for bids on two deep water parcels located about 160 kilometres southwest of Sable Island. The bid results will be known shortly after the June deadline. Meanwhile, in onshore developments, Triangle Petroleum announced that they plan to move forward with their shale gas development near Windsor. Results from test wells are expected to be released in 2009.■

Nova Scotia EconoClips

Company/Project/Status	Impact/Output	Comments
Fleetway Inc. **Expands**	Up to 100 new jobs within five years	The Canadian naval engineering and technical services company will be supported by a provincially funded payroll rebate to a maximum of $1.5 million.
Teletech **New Contract**	Up to 150 new jobs	The call centre aims to fill most of the new Halifax positions by the end of February.
Professional Quality Assurance Ltd. **Expands**	Up to 200 new jobs over five years	The New Brunswick-based software testing company is opening a new office in Dartmouth. The expansion is supported by funds from both the provincial government and Nova Scotia Business Inc.

Provincial Report
New Brunswick

Current Conditions

New Brunswick's economy moved slowly ahead in 2008 with robust consumer spending despite weak job growth. Large capital projects helped boost incomes but export markets faired poorly due to the plummeting U.S. economy.

New Brunswick ended 2008 with average employment up only 0.9% for the year, the second-weakest growth in the country. The public sector led job creation with new 4,400 jobs, while the private sector saw a net decline of over 1,000 positions, with a large drop in manufacturing. Weak job creation and a larger labour force pushed the unemployment rate up from 7.6% in 2007 to 8.6% in 2008. Although the monthly employment numbers have been volatile, New Brunswick has not seen any overall job growth since the first quarter of 2008, and may lose jobs in the coming months.

Large capital projects helped boost incomes but export markets faired poorly due to the plummeting U.S. economy.

Despite the slow employment growth, retail sales in New Brunswick were up 5.4% over the first 11 months of 2008 compared to 4.2% growth in Canada. Higher gasoline prices earlier in 2008 boosted retail sales across the country. Excluding gasoline sales retail growth was a more tempered 4% in New Brunswick and 2.6% in Canada, with a substantial increase in used car sales in New Brunswick.

Overall, 2008 was another solid year with urban housing starts up 9% in the year to November. Strength in Saint John and to a lesser extent in Fredericton offset declines in the Moncton area. However, the housing market showed significant weakness in the last two months of the year. Non-residential construction was up 16% in the year to November with work on the Brunswick natural gas pipeline and the Sussex potash mine expansion ramping up and activity on the Canaport LNG project continuing.

High energy prices in the first part of 2008 boosted the value of refined petroleum exports, but New Brunswick's non-energy merchandise exports were down 6% in the first eleven months, mainly due to weakness in forest products. Forest exports suffered for several reasons: falling values of wood products due to slowing housing markets; lower paper exports due to weaker U.S. demand; and the closure of the Dalhousie newsprint mill early in 2008. There was some strength in other products especially fertilizers, which had a significant price boost. However, manufacturing sectors such as machinery and plastics were weaker.

Fiscal Update

The province expects to run a deficit of $285 million in the current fiscal year, as opposed to the $19 million surplus projected in the budget, largely due to an increase in expenses. The rapid drop in global commodity prices, including zinc, caused a downward revision of metallic mineral tax revenue of $70 million. Expense increases totalled $302 million, of which $133 million was due to a significant funding shortfall for public sector pension plans, caused by the sharp downturn in financial markets. Other expenditure increases included $29 million for disaster assistance due to flooding. With the global economy weakening a sizeable deficit in the upcoming fiscal year is also highly likely.

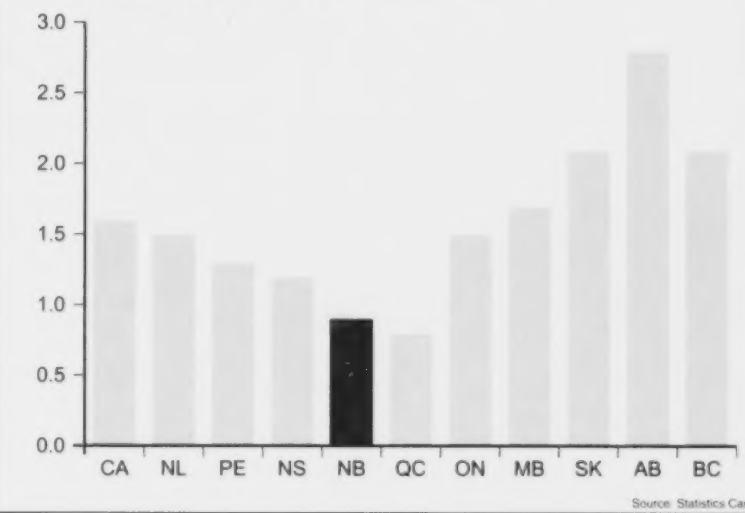
The government unveiled a larger-than-usual capital budget worth $1.2 billion over the next two years, intended to provide a stimulus to the provincial economy. Spending in 2009/10 will total $661 million, up $182 million from 2008/09. The largest increases in 2009/10 will be for the post-secondary education as well as spending on the provincial highway system.

Tax Reform

The Select Committee on Tax Review issued their final report to the provincial legislature in December, after engaging taxpayers

from around the province on their opinions of the proposed changes. In the finance minister's statement on the report, he outlined the key elements of the planned tax restructuring. "Gradual, yet significant" reductions in personal income tax, a "single-digit" general corporate income tax rate to be fully phased in by 2012, and no carbon tax. In the report, the committee recommended a flat 10% personal tax rate and reduction of the general corporate rate to 5%. To pay for these tax decreases, the select committee advised an increase in the HST, but the government is still considering its options. The committee also recommended that non-residential property taxes be lowered, and that three-year average assessment values be used to avoid unexpected increases in property tax bills. Full details on the new tax structure will be released in the government's spring budget, planned for March 2009.

New Brunswick Had the Second-Lowest Employment Growth in 2008
Average employment growth, 2008 (%)



Source: Statistics Canada

Energy

New Brunswick's energy sector continues to move ahead. Canaport LNG expects to begin commercial deliveries of natural gas in the spring of 2009. Although the refurbishment of the Lepreau I nuclear plant is three to four months behind schedule, a site licence application for Lepreau II is currently being prepared. According to Irving Oil, construction of a second oil refinery could still begin in 2011, but will now extend over eight years, rather than the original plan of three or four years. The extension is due to shortages of skilled labour, higher costs of financing, increased international competition and a possible decrease in fuel demand as a result of a global economic slowdown.

On the renewable side, the province's first wind farm came fully on line at the end of the 2008. The TransAlta Wind's Kent Hills wind farm is the largest in Atlantic Canada with a 96 MW capacity. Three other wind farms are under construction in the province with a total capacity of 213 MW. In November the province released its first-ever biomass policy, which set guidelines for harvesting biomass and provided an assessment method to ensure the sustainable management of those forests. The government is currently preparing a bio-energy strategy.■

New Brunswick EconoClips

Company/Project/Status	Impact/Output	Comments
DEW Engineering and Development Ltd. **Expansion**	165 new jobs	A contract with the U.S. Department of Defense and funding from Business New Brunswick will more than double its workforce. The company will also expand its facility in Miramichi and buy new equipment.
Ocean Spray New cranberry bogs	$90 million	Pending an environmental assessment, the company will begin setting up 769 hectares of cranberry bog near Rogersville. The first harvest is expected to be ready by 2012.
Sabian Ltd. **Layoffs**	16 jobs lost, at least 8 permanently	The cymbal-maker cited the global economic slowdown and ensuing decrease in demand as the reason for the cutbacks.

Atlantic Report

Atlantic Economic Snapshot

ATLANTIC ECONOMIC SNAPSHOT

Labour Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Employment	Jan-Dec 08	220.4	70.3	453.2	366.2	1,110.0	17,130.0
thousands	Jan-Dec 07	217.1	69.4	447.6	362.9	1,097.0	16,865.1
	%change	1.5	1.3	1.2	0.9	1.2	1.6
Unemployment Rate	Jan-Dec 08	13.2	10.7	7.7	8.6	9.3	6.1
percent	Jan-Dec 07	13.6	10.3	8.0	7.6	9.2	6.0
Unemployment Rate	Dec 08	13.7	11.8	8.2	8.6	9.7	6.6
percent (current month)	Dec 07	12.5	10.7	7.8	7.8	9.0	6.0
Participation Rate	Jan-Dec 08	59.5	68.7	63.9	64.8	63.5	67.8
percent	Jan-Dec 07	59.2	68.3	63.7	64.0	63.1	67.6

Consumer Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Dec 08	114.3	117.5	115.9	113.2	n/a	114.1
2002=100, unadjusted (period avg.)	Jan-Dec 07	111.1	113.6	112.5	111.3	n/a	111.5
	%change	2.9	3.4	3.0	1.7	n/a	2.4
Residential Permits	Jan-Nov 08	537.5	102.5	756.9	544.7	1,941.6	38,151.3
$ millions	Jan-Nov 07	389.2	107.0	792.5	519.8	1,808.5	41,701.6
	%change	38.1	-4.1	-4.5	4.8	7.4	-8.5
Urban Housing Starts	Jan-Nov 08	1,967.0	452.0	3,019.0	3,006.0	8,464.0	175,408.0
Units; unadjusted	Jan-Nov 07	1,669.0	460.0	3,083.0	2,765.0	7,977.0	182,585.0
	%change	19.1	-1.7	-2.1	8.7	6.1	-3.9
Rural Housing Starts	Jan-Sept 08	718.0	179.0	499.0	856.0	2,252.0	17,996.0
Units; unadjusted	Jan-Sept 07	541.0	196.0	1,029.0	926.0	2,692.0	26,034.0
	%change	32.7	-8.7	-51.5	-7.6	-16.3	-30.9
Retail Trade	Jan-Nov 08	6,517.6	1,575.4	11,213.3	8,993.3	28,299.6	392,585.8
$ millions	Jan-Nov 07	5,995.8	1,490.7	10,656.8	8,530.6	26,674.0	376,810.5
	%change	8.7	5.7	5.2	5.4	6.1	4.2

Industrial Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Nov 08	3,238.1	797.4	3,830.7	3,745.9	11,612.0	323,263.0
$ millions, unadjusted	Jan-Nov 07	2,931.9	742.3	3,846.2	3,966.3	11,486.7	331,533.5
	%change	10.4	7.4	-0.4	-5.6	1.1	-2.5
Total Energy Exports	Jan-Nov 08	10,693.3	2.5	1,516.1	8,364.2	20,576.0	125,741.2
$ millions, unadjusted	Jan-Nov 07	7,863.5	2.5	1,113.1	6,270.7	15,249.8	85,072.8
	%change	36.0	0.3	36.2	33.4	34.9	47.8
Manufacturing Shipments	Jan-Nov 08	6,277.2	1,275.7	10,078.8	16,924.1	32,149.1	560,604.8
$ millions	Jan-Nov 07	4,754.3	1,313.4	9,037.4	14,231.9	29,337.0	558,808.9
	%change	32.0	-2.9	11.5	18.9	9.6	0.3
Non-Residential Permits	Jan-Nov 08	209.9	96.7	484.5	459.7	1,250.8	27,527.6
$ millions	Jan-Nov 07	170.5	44.5	422.9	395.0	1,032.9	26,649.3
	%change	23.1	117.2	14.6	16.4	21.1	3.3

Note: Seasonally adjusted unless otherwise noted (unadjusted).

Source: Statistics Canada